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Building a Competitive Advantage

for Supermarkets in Health & Beauty Care

FMI
FOOD MARKETING INSTITUTE

BUILDING A COMPETITIVE ADVANTAGE FOR SUPERMARKETS IN HEALTH & BEAUTY CARE 1991

Conducted for

Food Marketing Institute

By

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The Food Marketing Institute (FMI) is a nonprofit association conducting programs in research, education, and public affairs on behalf of its 1,500 members--food retailers and wholesalers and their customers in the United States and around the world. FMI's domestic member companies operate approximately 19,000 retail food stores with a combined annual sales volume of $180 billion--more than half of all grocery sales in the United States. FMI's retail membership is composed of large multi-store chains, small regional firms, and independent supermarkets. Its international membership includes 230 members from 60 countries.

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Introduction

Health and beauty care (HBC) products are an important component of the sales and profit mix of the supermarket. Any significant loss of this business has a major impact on the performance of the store.

In an earlier study conducted for Food Marketing Institute--*GM/HBC Consumer Shopping Preferences 1990*--researchers found that supermarket HBC is vulnerable on the basis of price. One component of the nationwide survey of 2,000 households examined the shopping for seven HBC categories* and found:

- Supermarkets are the most frequently shopped outlet for only four of the seven categories.
- Convenience is the major reason for buying HBC in the supermarket.
- Price is the major deterrent to buying HBC in the supermarket.

Supermarkets clearly need to find ways to begin to overcome the disadvantages associated with their current price reputation.

One way to begin is to look at how consumers are shopping for HBC in markets where they have several outlets from which to choose. In these settings, consumers have the opportunity to evaluate their shopping options based on the value they receive from each type of store. Consumers with a number of store choices are in a good position to see the strengths and the weaknesses of each outlet type.

Oral care products, deodorant, shampoo, non-prescription medications, skin care, cosmetics and vitamins.

Objective

The goal of the *Building a Competitive Advantage for Supermarkets in Health & Beauty Care* study is to develop a better understanding of how consumers shop for HBC in competitive markets and to identify some possible actions that supermarkets can take to make their HBC departments more appealing. This information can help each supermarket develop a strategy for strengthening its own position in competing for HBC business in the market.

Methodology

This study analyzes the shopping behavior of more than 2,000 households and compares HBC shoppers in supermarkets with above-average HBC sales to HBC shoppers in supermarkets with below-average HBC sales. It involved:

- Identifying six combination food/drug study stores in different markets across the country, each facing direct competition from at least one deep discount drug store as well as mass merchandisers and conventional drug stores. Food/drug combos were selected because it was felt that they represent the supermarket's strongest offering in HBC.

- Establishing the sales performance of the HBC department of each study store by comparing the store's HBC percent of sales with the average for the chain. The initial analysis identified three over-performing and three under-performing supermarket HBC departments, but a newly implemented program in one of the under-performers caused that store to be reclassified. Therefore, this report is based on four over-performing and two under-performing HBC departments.

- Interviewing the individual responsible for HBC merchandising for each study store to learn more about the strategies being employed in the stores.

- Conducting a price check comparing each of the six study stores with its direct deep discount drug store competitor(s).

- Interviewing at least 100 shoppers in each study store (792 in total) to determine where they purchase HBC products and why they shop certain types of stores. These shoppers were intercepted outside the HBC department--often in produce, dairy or at the check-out.

- Conducting focus groups among shoppers from each study store (six groups and 58 shoppers in total) to develop an understanding of how these consumers shop for HBC products and their attitudes about buying HBC in other alternative outlets in the market.

- Interviewing an additional 200-plus consumers in each study store (1,255 in total) to probe more deeply into HBC shopping behavior and to understand the way these consumers purchase 14 different HBC categories. These shoppers were intercepted at a point in the store where they would have had the chance to buy HBC products, regardless of whether or not they actually did so.

This study approach provides an in-depth look at the way consumers shop for HBC in six different, highly competitive markets. In consideration of protecting the confidentiality of participating retailers, no detail will be made available about the specific markets studied. The markets are not intended to be representative. They were selected to provide supermarket operators with insight into the shopping dynamics that occur when a food/drug combination store faces an aggressive discount operator.

Most of the specific comments in this report on HBC competition refer to the deep-discount drug stores that were confronting each of the study stores. Five of the study stores also experience direct competition from a mass merchandiser, and four compete with wholesale clubs. Even though these outlets operate in the trade areas included in the study, consumers made very few comments about these other outlets being either their primary or secondary sources for HBC purchases. For this reason, the analysis in this report focuses directly on the obviously strong competitor--the deep-discounter.

The body of this report is structured to discuss the key findings developed from the research conducted. Each finding concludes with an "Implications for Supermarket Response" section that details the finding's meaning to retailers and identifies possible actions that can be considered in efforts to build a competitive advantage for the health and beauty care department.

Summary Findings

1. Food/drug combos facing direct competition from deep discount drug stores are capturing HBC business from less than half of the consumers shopping in their stores. (Page 5)

2. HBC shopping behavior may be a better basis than demographics for predicting where consumers are most likely to purchase most of their HBC products. (Page 13)

3. While consumers cite price and convenience as the major reasons for selecting an outlet for HBC purchases, several other factors can also influence this decision. (Page 19)

4. Supermarkets need to narrow the price gap in HBC but don't necessarily have to *match* the low-priced operator's prices across the board to be viewed as competitive. (Page 25)

5. Shoppers give deep-discounters the edge on variety because they can find items there that are not available in the supermarket. (Page 35)

6. Supermarkets have an opportunity to capture additional HBC sales by stressing the convenience of combining pharmacy shopping with other shopping. (Page 41)

FINDING 1

Food/drug combos facing direct competition from deep discount drug stores are capturing HBC business from less than half of the consumers shopping in their stores.

National statistics show that while the supermarket sells more HBC than any other single type of outlet, all other types of stores combined still do the majority of the HBC business.

Where Consumers Most Often Purchase
Key HBC Products

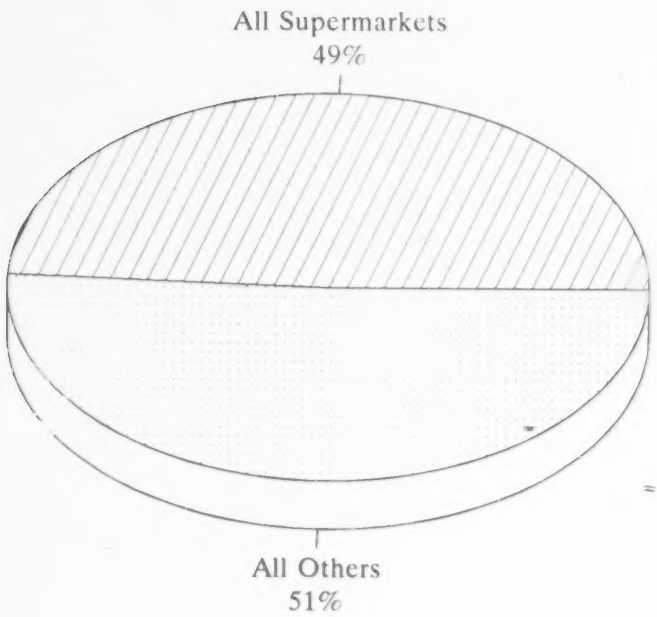
	Super-market	Drug Store	Mass Merchandiser	Deep-Discount Drug Store	Other	Total
Oral care products	42%	13%	23%	19%	3%	100%
Deodorants	40	12	24	19	5	100%
Shampoo	34	10	25	21	10	100%
Non-prescription medication	28	26	21	22	3	100%
Skin care products	20	16	22	18	24	100%
Cosmetics	12	16	23	16	33	100%
Vitamins	24	24	19	16	17	100%

*Source: FMI/GMA report, *GM/HBC Consumer Shopping Preferences 1990*

The question that remains after looking at these national statistics is: what were the store choices available to the consumers?

This 1991 study focuses on shoppers who have ready access to both a food/drug combination store and one or more deep discount drug stores in addition to a mix of other stores.

Where Consumers Buy Most HBC Products
(% of all Shoppers)



Sample base: 792

In the markets most recently studied, the supermarket HBC business is better developed than it was at the supermarkets involved in the 1990 study--no doubt reflecting the strong appeal of the 1991 study stores (food/drug combos).

HBC shopping patterns, however, differ for consumers who use the study store as their primary supermarket versus those who devote most of their grocery business to another supermarket. In this table, "loyal" means that the shoppers do the majority of their grocery shopping at the specified store.

How Store Loyalty for Groceries
Affects Choice of HBC Outlet
(% of Primary HBC Shoppers)

Primary HBC Outlet	All Shoppers	Shoppers Loyal to Study Store for Groceries	Shoppers Loyal to Other Stores for Groceries
Supermarket	**49%**	**55%**	**29%**
Study store	43	54	11
Other grocery	6	1	18
Deep-discount drug store	**33**	**34**	**30**
Other outlets	**18**	**11**	**41**
Total	**100%**	**100%**	**100%**
Sample base:	792	603	189

Three points emerge that can help supermarkets develop strategies to defend and even build HBC sales.

- Grocery shoppers loyal to a particular supermarket are much more likely to do most of their HBC shopping in that store.
- Even among loyal grocery shoppers, only a little over half do most of their HBC shopping in the supermarket.
- Deep discount drug stores consistently attract about one-third of the HBC shoppers.

The range of opportunities becomes clearer by comparing over- and under-performing study stores.

How Supermarkets Differ in Ability
to Attract HBC Sales
(% of Primary HBC Shoppers)

	------All Shoppers----		Shoppers Loyal to --Study Store for Groceries--	
	Over-performing*	Under-performing*	Over-performing*	Under-performing*
Supermarket	**53%**	**42%**	**59%**	**48%**
Study store	48	35	58	46
Other groceries	5	7	1	2
Deep-discount drug store	**29**	**41**	**32**	**39**
Other outlets	**18**	**17**	**9**	**13**
Total:	**100%**	**100%**	**100%**	**100%**
Sample base:	519	273	396	207

**With respect to getting HBC business from loyal grocery customers.*

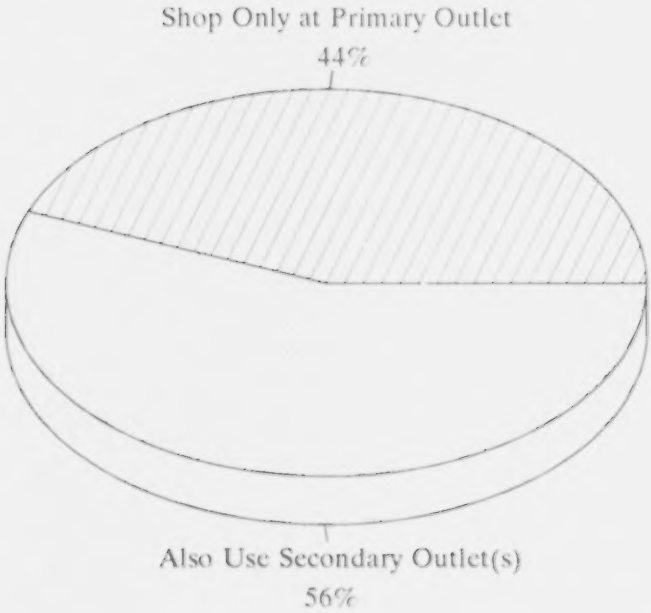
This analysis reveals that:

- As might be expected, over-performing stores do a much better job of holding on to HBC business than under-performers. However, they still fail to capture the primary HBC business from more than 40% of these shoppers.

- Deep-discount drug stores capture considerably more HBC business from under-performing supermarkets than from their over-performing counterparts.

HBC shopping, however, is generally not confined to a single store.

How Consumers Shop For HBC
(% of all Shoppers)

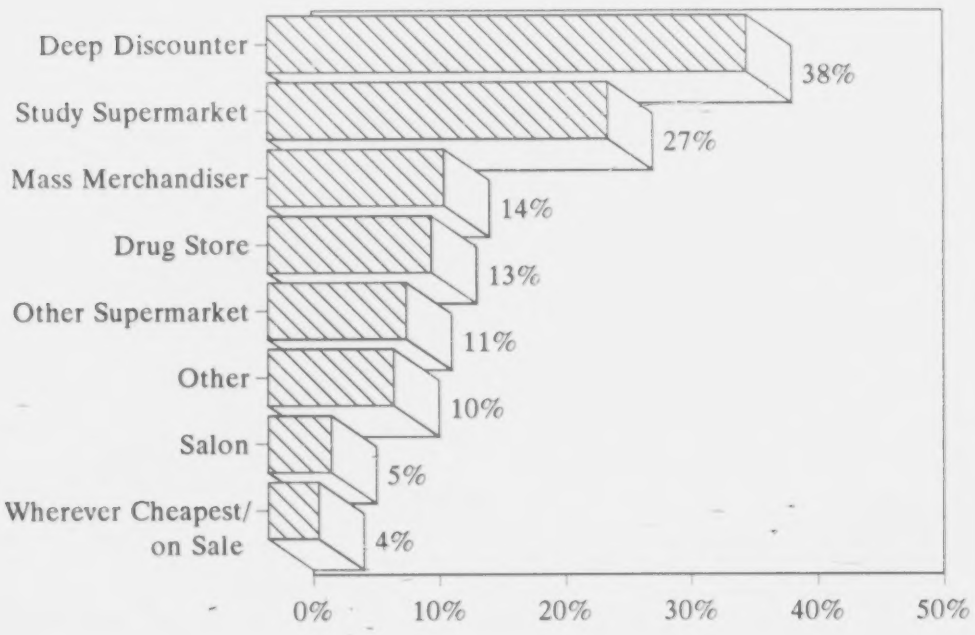


Sample base: 792

Shoppers who are not loyal to <u>one</u> particular store for their HBC needs are able to name one--or more--secondary outlets.

With nearly 60% of consumers shopping more than one outlet for HBC, there are opportunities to increase the transaction size of these cross-over shoppers, both by reducing the amount of secondary shopping done outside the supermarket and by attracting more secondary business from other HBC outlets. These opportunities become more apparent from the list of secondary outlets for those customers shopping in the study store.

Secondary Outlets for HBC
(% of all Shoppers Who Use Secondary Outlets)



Sample base: 443
Note: Multiple responses possible

Approximately two-thirds of the shoppers who use secondary outlets patronize either the deep-discounter or the study supermarket. As might be expected, the study store is used as a secondary source most often for convenience-related reasons.

A large but potentially more difficult segment of consumers for the supermarket to target is the group of shoppers that seldom--if ever--shops the supermarket for HBC, even though they shop for other items in that particular store. Thirty-six percent of the consumers do not regard the study stores as either primary or secondary outlets for their HBC purchases. These consumers favor other outlets on the basis of price (77%) and choose deep-discounters as their primary outlet for HBC purchases 58% of the time.

Implications for Supermarket Response

Supermarkets are not capturing a large percentage of their regular shoppers' HBC purchases. A first step in developing a marketing plan to attract this business could be to define the major market segments. Following are the sizes of each segment, based on this research.

- Consumers using the study store as their only outlet for HBC purchases 23%
- Consumers using the study store as their primary outlet but also using other outlets 26%
- Consumers using the study store only as a secondary outlet for HBC 15%
- Consumers shopping the study store but purchasing no HBC there 36%

While the exact proportion varies by market, it appears that apparently three-quarters of the supermarket shoppers represent opportunities to increase HBC sales for a given food/drug combo. In-store promotion and target marketing should prove to be effective techniques for shifting some of this business back to the supermarket.

FINDING 2

HBC shopping behavior may be a better basis than demographics for predicting where consumers are most likely to purchase most of their HBC products.

Perhaps the clearest difference between consumers buying most of their HBC needs at the food/drug combo and those who buy most of these products at the deep-discount drug store is their attitudes towards comparing prices across stores.

Consumer Attitudes Towards Comparing Prices
(% of Shoppers)

		Shopper Choice for --Primary HBC Outlet--	
"Do you compare HBC prices in more than one store?	All Shoppers	Study Store	Deep-discounter
Yes	52%	42%	66%
No	48%	58%	34%
Total:	100%	100%	100%
Sample base:	1,255	671	307

Those who concentrate their HBC business with the deep-discounters are more likely than the study store HBC shoppers to check prices. At the same time, though, one-third of deep discount shoppers report that they don't compare prices across stores. This suggests, perhaps, that these consumers have come to expect that deep-discounter prices will be lower and so they no longer regularly compare prices. This group will probably be difficult to win back to the supermarket.

Another difference between these two groups of shoppers pertains to the proportion of sale items purchased during their trips to the study store.

Purchasing HBC Sale Items
(% of HBC Items Purchased on Sale in Study Store)

All Shoppers	Shopper Choice for --Primary HBC Outlet-- Study Store	Deep-discounter
29%	26%	36%

Deep-discount drug store HBC shoppers purchase a larger proportion of HBC products on sale at the study store than do study store HBC shoppers. This indicates that the deep-discount drug store shoppers are responding to the supermarket's price promotions.

Since it is assumed that deep-discounter pricing encourages stock-up shopping, it was anticipated that those who did most of their shopping at these stores would stock up more than those who did not shop deep-discount stores.

How Important is Stock-up Shopping?
(% of Shoppers Who Stock Up)

	All Shoppers	Shopper Choice for --Primary HBC Outlet-- Study Store	Deep-discounter
	54%	48%	60%
Sample base:	792	344	264

Deep-discounters are significantly more successful in encouraging stock-up shopping than are the study stores.

Another area where a difference had been anticipated between study store and deep-discount drug store HBC shoppers involves their willingness to try private label products.

Willingness to Consider Store Brands
(# of Categories)

"In how many HBC categories would you consider a store brand?"	All Shoppers	Shopper Choice for --Primary HBC Outlet-- Study Store	Deep-discounter
Would consider	3.3	3.1	3.2
Would not consider	10.7	10.9	10.8

The fact that there is no appreciable difference between the willingness of these two groups of shoppers to try private label--though a difference might have been expected--could "cut both ways" for supermarkets.

- On the positive side, deep-discount shoppers indicate no particular resistance to store brands and could be lured back with such offerings.

- On the other hand, deep-discounters could adopt private label as another way of holding on to their shoppers.

While not dramatic, the difference between deep-discount drug store shoppers and study store shoppers in the areas of age and income is somewhat surprising.

Shopper Age

Shopper Age	All Shoppers	Shopper Choice for --Primary HBC Outlet-- Study Store	Deep-discounter
18-24	4%	4%	3%
25-39	47	52	42
40-49	27	24	32
50-64	16	14	17
65 +	5	5	5
Refused	1	1	1
Total:	100%	100%	100%
Median:	(39.6 years)	(38.1 years)	(41.4 years)
Sample base:	1,255	671	307

Household Income

Household Income	All Shoppers	Shopper Choice for --Primary HBC Outlet-- Study Store	Deep-discounter
Under $14,999	2%	3%	1%
$15,000-$24,999	7	8	5
$25,000-$34,999	17	17	18
$35,000-$44,999	19	18	19
$45,000-$54,999	18	18	21
Over $55,000	28	28	29
Refused	9	8	7
Total:	100%	100%	100%
Median:	($45,402)	($44,918)	($47,000)
Sample base:	1,255	671	307

Shoppers who concentrate their business in the deep-discount drug store are slightly older and a little more affluent than those shoppers who concentrate their business in the study store.

Implications for Supermarket Response

It is difficult to identify which shoppers will devote most of their HBC purchases to the food/drug combo rather than the deep-discount drug store. It does appear, however, that price sensitivity is a better indicator of this behavior than any of the key demographic characteristics. If supermarkets are to make significant progress against these discounters, they will need to find ways to appeal directly to these more price-sensitive shoppers. This can be done:

- Broadly through ads or circulars that showcase the competitive HBC prices offered in the supermarket.

- In-store, through signage and point-of-purchase materials that price-sensitive shoppers will notice.

The challenge is to break through the clutter of messages that keep the price-oriented shopper from seeing the values available in the supermarket HBC section.

FINDING 3

While consumers cite price and convenience as the major reasons for selecting an outlet for HBC purchases, several other factors can also influence this decision.

The "*Value Equation*" has proven to be a useful framework for thinking about the various aspects of store appeal and how these aspects are viewed in the minds of consumers.

VALUE = CONVENIENCE + PRICE + QUALITY + VARIETY + SERVICE

While the importance of each factor varies among consumers, there appears to be some general pattern in terms of the relative importance of each value component.

- **Convenience** is always an important component in determining a store's value. The primary issue here is the distance a shopper must travel to visit the store. If this distance is substantial and other, reasonably acceptable outlets are closer, the inconvenience of the trip can neutralize virtually all other appeals.

- **Price** is the other potentially overwhelming component of the *value equation*. If there is a significant price difference between stores, a price advantage can help overcome a substantial inconvenience factor--at least for price-sensitive shoppers. If there is no significant price differential between outlets, consumers then determine value largely by convenience and other, less-impactful components.

- **Quality**--particularly as it relates to perishable products--can also be a major determinant of value, assuming that there are no major differences among outlets in terms of convenience and price. This factor doesn't seem to have much of an impact on where the shopper decides to shop.

- **Variety and service** typically enter the value equation in one of two ways:

  - As positives if stores are relatively similar in terms of the more powerful components of convenience and price.

  - As major negatives if they are significantly below other competitive outlets.

In general, a store can win a significant share of customers if it dominates on either convenience or price and is at least at parity with competitive outlets on the other remaining value components.

Looking at the reasons that shoppers in a price-competitive market choose a particular outlet as the primary source for their HBC purchases indicates a pattern expected from the value equation.

Reasons for Choosing Primary HBC Outlet
(% of all Shoppers)

Price	56%
Convenience	34
Variety	5
Other	5
Total:	100%

Sample base: 792

Price and convenience combined account for a full 90% of the reasons shoppers choose a particular outlet for their HBC purchases.

In these competitive markets:

- Price emerges as the primary determinant of value. In the minds of shoppers, price has three dimensions:

  - Good, fair everyday prices
  - Good sale prices
  - Double coupons

  While all are important, the first, i.e., "good, fair everyday prices," is clearly most important.

- Convenience is important, but less so than it would be if there were no strong price differences between outlets. To shoppers, convenience means one of two things:

  - Close to home and/or work
  - One-stop shopping

  Each of these considerations is important to a large percentage of consumers, with proximity being just slightly more important. In many markets, shoppers have several outlets from which to choose within a relatively small geographic area. In these markets, convenience has much less impact on the selection of a specific store.

- Variety is a significant factor but appears to be important to a relatively small number of shoppers.

The different appeals of the food/drug combo and the deep-discounter emerge in the primary reason shoppers cite for choosing each type of store.

Reasons for Choosing Primary HBC Outlet
(% of all Shoppers by Outlet)

	All Shoppers	Shopper Choice for --Primary HBC Outlet-- Study Store	Deep-discounter
Price	56%	26%	91%
Convenience	34	59	4
Other	10	15	5
Total:	100%	100%	100%
Sample base:	792	344	264

The results show that:

- Convenience is a greater factor in defining the value of the study store than is price.

- Price is almost the exclusive factor in defining the value of the deep-discount drug store.

Even though convenience and price are the primary value determinants, other considerations can also be important in determining store choice. These other factors can also serve as a basis for building a store advantage once any disadvantage in price has been neutralized.

Important Considerations in
Store Choice Decision

	% Saying "Very Important"
Products are consistently in stock.	84%
Store is neat and clean.	81
Employees are friendly and available to help me.	72
Everyday prices of HBC products are low.	71
I can easily find sale items on the shelf.	69
Store always carries the same products and brands.	68
There are good sales on HBC products.	60
Store has a pharmacy.	38
Store has attractive displays of HBC products.	29

Sample base: 1,255

While not important enough by themselves to override a significant price premium or inconvenient location, the top two or three factors contributing to store choice could be solid selling points once a supermarket's price disadvantage has been addressed.

Implications for Supermarket Response

One of the supermarket's major strengths is that it offers one-stop shopping; but, this appeal seems to diminish when significant savings are available in competitive outlets. It appears that when confronted with aggressive price competition, the supermarket must respond directly to the challenge or face the prospect of losing business to the price competitor.

The supermarket can begin to more effectively utilize a number of its traditional strengths to attract and hold consumers once a satisfactory price response has been developed (see Finding 4). These strengths include:

- Consistent product availability
- Excellent store conditions
- Friendly, helpful employees

Although these factors mean "value" to consumers, they will have only minimal impact until any significant price disadvantage is addressed.

FINDING 4

Supermarkets need to narrow the price gap in HBC but don't necessarily have to match the low-priced operator's prices across the board to be viewed as competitive.

Price is clearly important to a large proportion of HBC shoppers, but how do they really judge a store's prices? The answer can be found by looking at the reasons consumers choose an HBC outlet from a different perspective.

Reason for Choosing
Primary HBC Outlet
(% of all Shoppers)

Fair prices every day	45%
Sales	4
Coupons/double coupons	4
Fair prices every day & sales	2
Non-price-related	45
Total:	100%

Sample base: 792

A "fair price" every day is more important than sales in attracting regular HBC business. A general conclusion regarding coupons is more difficult to reach since double-coupon programs may not have been available in all the areas studied.

Looking across the six markets studied, it is clear that the food/drug combos don't have to match the low-price competitor in order to turn in a strong performance.

Price Check Comparison*
(Study Store over Deep-Discounter)

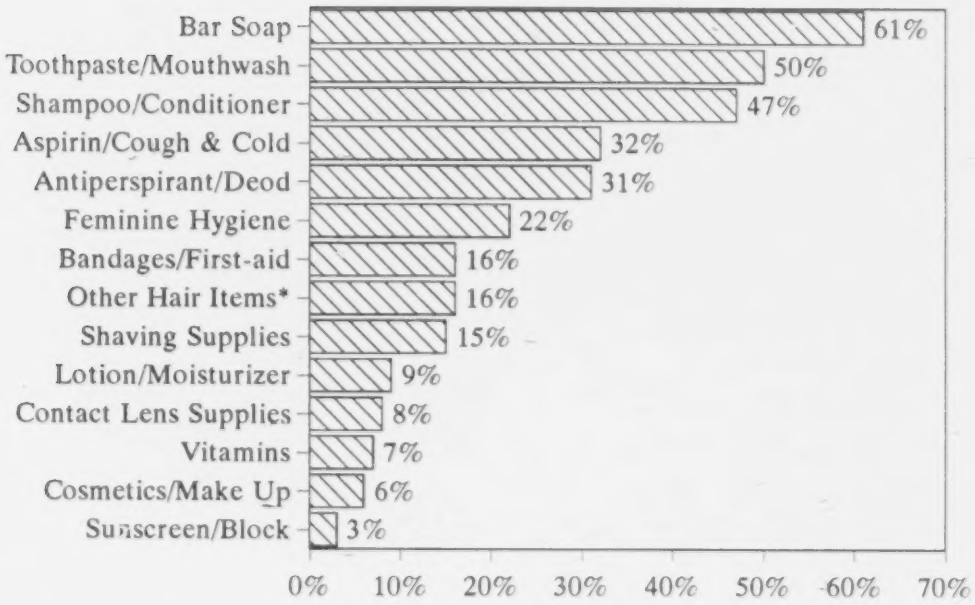
	All Stores	Over-performers	Under-performers
Supermarket % premium over deep-discounter	12%	9%	18%

**Based on a 40- to 50-item market basket of identical items.*

The over-performing study stores showed an average price of 9% over the deep-discount competition and still did a significantly better job of capturing HBC sales. While it will be impractical for most supermarkets to charge prices as low as the lowest competitor, there is clearly an advantage in significantly narrowing the price gap.

Guidance on the categories that are particularly price-sensitive can be found in consumer attitudes regarding which categories they consider "stock-up" categories.

Stock-up Categories
(% of all Shoppers)



*Mousse, Gel, Spray
Sample base: 1,255
Note: Multiple responses possible

The results suggest that supermarkets who are striving to close the price gap with deep-discounters should work to be most competitive in at least three categories:

- Bar soap
- Toothpaste/mouthwash
- Shampoo/conditioner

Other categories will also be important, depending on the composition of the trade area. Advertising geared toward a stock-up theme may be particularly effective in these categories.

As supermarkets begin to target stock-up HBC shoppers more aggressively, it will be helpful to keep in mind that many shoppers view stock-up purchases as more than just a way to save money. For some, stock-up shopping is also more convenient.

When shoppers talk about stock-up shopping as a convenience, they may really mean different things. To them, stock-up shopping can:

- **Make regular, weekly shopping trips easier**. Stocking up can reduce the number of products that the consumer must carry into the house and put away on a weekly basis--it essentially lightens the load every week. If a separate HBC stock-up trip is made once a month, the consumer must deal with a lot of products during that single trip but then the effort will not be required again for some time.

- **Simplify life**. The shopper no longer has to worry about running out of an essential HBC product. She/he feels fairly certain that the family will not be caught short if she/he forgets once to pick up a certain item so there is less pressure and stress.

Two barriers to stocking up were identified in the focus groups: storage space and money. It seems that for some shoppers, extra closet space or a basement storage area is just not available. For others, a tight budget will not allow the up-front investment required to stock up. Shoppers facing budget constraints are often frustrated because they know that stocking up would save them money in the long run.

Additional guidance for narrowing the price gap with deep-discounters can be found by examining why consumers believe that some stores can sell HBC at lower prices than others can.

Why Some Stores Can
Sell HBC at Lower Prices:
The Shopper Perspective
(% of all Shoppers)

Sell more/buy more	59%
Don't know	20
Lower operating costs	4
Part of bigger store/mark-ups on other items	4
Stock more/more selection	3
Decision to make lower margin	3
HBC is their specialty	2
Sell out-of-date or lower quality products	1
Other*	4
Total:	100%

Sample base: 1,255

**Includes 12 individual miscellaneous responses*

Consumers make a strong connection between the deep discount retailer's volume of business and the store's ability to sell at a low price.

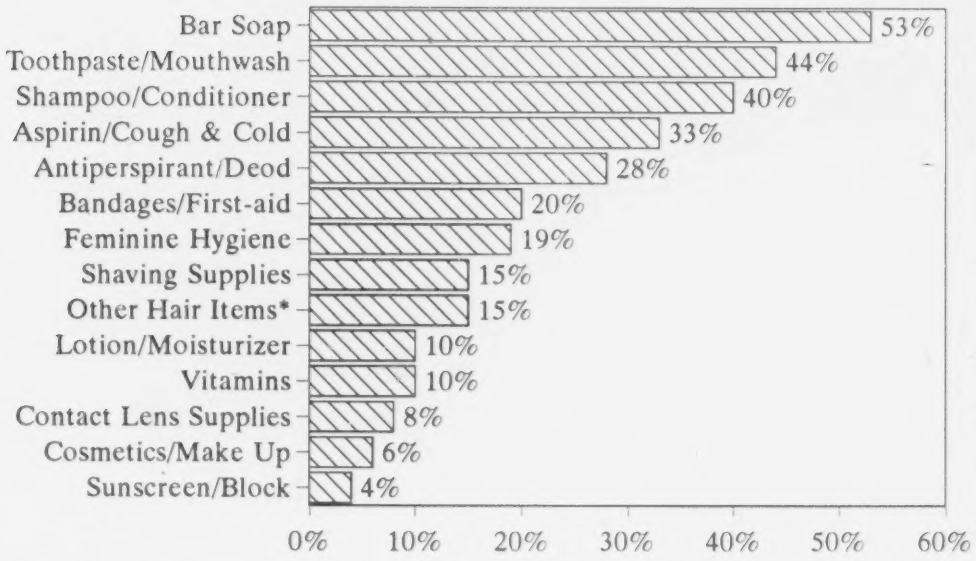
- *"They (deep-discounter) buy bulk and then sell at a lower price."*
- *"It's their business. They don't sell groceries. They probably buy a great amount because they have several stores, and they probably get a better price."*
- *"Phar-Mor is such a big chain--they even talk about 'power buying'."*

Unfortunately, supermarkets are generally not recognized as high-volume outlets for HBC products, even though they often have the same--or even greater--buying power as deep discounters.

There is an opportunity for supermarkets to let shoppers know that they are large-volume HBC buyers and to clearly establish the fact that with this level of buying, the store can pass on savings in the form of lower prices.

Another opportunity to help close the price gap relates to making more low-price, store-brand options available to HBC consumers.

Categories in Which Shoppers are Receptive to Store Brands
(% of Shoppers Mentioning)



*Mousse, Gel, Spray
Sample base: 1,255
Note: Multiple responses possible

There appears to be a definite opportunity to offer and promote private label in at least four or five HBC categories. It is interesting to note that the top five categories here are the same as the top five stock-up categories detailed earlier in this finding.

Focus group findings also support the potential value of this strategy.

- *"I usually just read the ingredients, and it's the same thing for half the price; so, I try it, and I've been satisfied."*
- *"An aspirin is an aspirin. So, yes, I would try the store's brand."*
- *"I wanted to pick up some dandruff shampoo. I knew that the store brand would be half the price of Head & Shoulders but would be just as good."*
- *"The lotion I bought was just as good as Lubriderm, and I paid $2 or $3 less."*

Retailers sometimes look for ways to increase trial of their private label products, hoping that repeat purchases will follow. The potential of offering a money-back guarantee was explored in a question tailored to one of the study stores.

Effect of Money-back Guarantee on
Private Label Purchases
(% of all Shoppers)

"Would you be more likely to try the store's private label HBC products if they came with a money-back guarantee?"

Yes	43%
No	49
Depends on category	5
Don't know	3
Total:	100%

Sample base: 217

There is strong interest in trying private label HBC. And, keep in mind that some of those who said, "no," did so because they were already receptive to the chain's strong private label brand and, therefore, would not be influenced by the guarantee.

Implications for Supermarket Response

There are significant advantages to narrowing the perceived price gap between deep-discounters and supermarkets. To accomplish this goal, supermarkets have five options that can be used separately or in combination.

- Strengthen signage and advertising to ensure the store gets credit for strong current prices or any pricing change put into effect.

- Communicate your store's ability to "buy right" and therefore "sell right."

- Offer new, low-price options, i.e., private label, in selected categories.

- Encourage stock-up purchase on HBC products with quantity pricing and other promotions.

- Reduce the actual retail price difference versus competition by moving to net pricing--a concept in which margins are developed based on net cost rather than gross cost.

FINDING 5

Shoppers give deep-discounters the edge on variety because they can find items there that are not available in the supermarket.

From discussions with retailers during the course of the study, it appears that variety may be one area that consumers and supermarket executives view very differently. In these conversations, supermarket retailers would frequently say, "We carry greater variety than they do," with "they" meaning the deep discounters.

In the focus groups, however, shoppers often expressed the opposite sentiment. In many cases, shoppers feel the deep-discounters carry a wider variety than supermarkets. Based on further probing of this issue, it seems that both parties may be right.

Focus group participants say that they, as shoppers, judge variety in terms of the number of **brands** carried, while retailers may judge variety in terms of the number of **SKUs** they carry, which would include line extensions and different sizes. This may represent an opportunity for retailers who would like to expand their variety image.

During the intercepts in one of the study stores, shoppers were asked, "Which store--this store or the deep-discounter--do you think carries the bigger variety of health and beauty care products?"

Who Has More Variety?

Deep-discounter	50%
Study supermarket	13
Other store/don't know	37
Total:	100%

Sample base: 215

This market happens to be one in which the study store is classified as an "over-performer" and has a loyal following of shoppers.

These same shoppers were asked in which categories they think greater variety is most evident.

Where is the Variety Advantage Most Evident?
(% of Mentions for Top Categories)

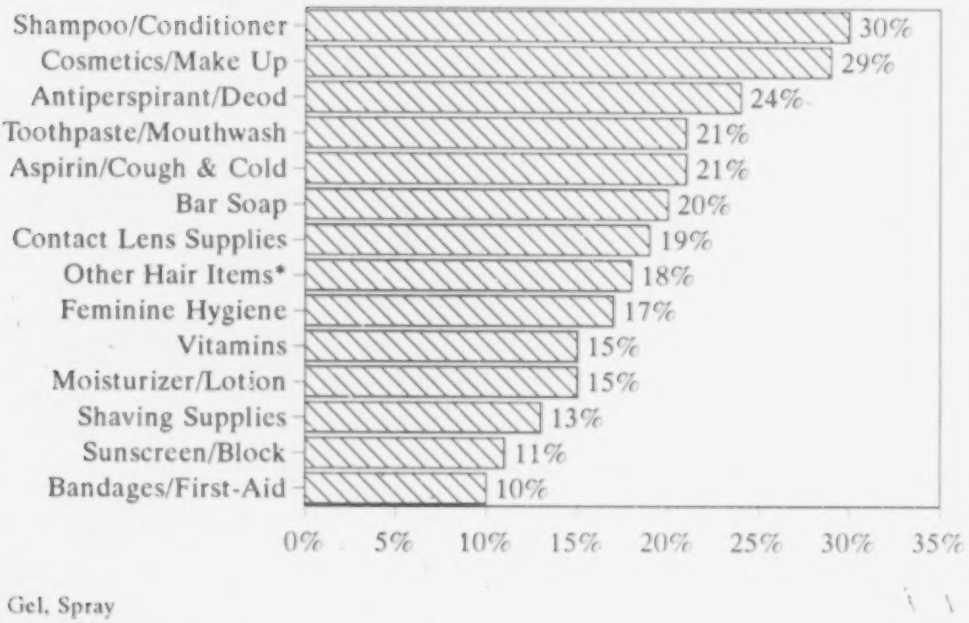
Hair care	36%
Cosmetics/Make up	25%

The importance of variety in selected categories is supported in the answers to this question. Further evidence of this is found in the focus group responses.

- *"They (supermarket) have no variety or not enough variety, especially on shampoos and deodorants."*
- *"In most of the grocery stores, you won't find six scents of Mennen deodorant. They may have one or two, but a store like Phar-Mor will have them all."*
- *"They (Drug Emporium) have such a wide variety of almost every item you need--shampoo, toothpaste..."*

Lack of variety can force shoppers to make a fill-in trip to another store. This "opens the door" for additional lost sales.

Categories That Can Trigger a Trip to Another Store
(% of Shoppers Mentioning)



*Mousse, Gel, Spray
Sample base: 1,255
Note: Multiple responses possible

While several categories stand out as "variety-sensitive," shampoo/conditioner and cosmetics/make up emerge as the most critical. In fact, these are the two categories in which shoppers said variety is most evident. There is a qualification, however, that should be kept in mind while interpreting this information. It involves the categories in which less than the total population actively purchases, e.g., contact lens supplies. Even if every buyer in such lower-penetration categories stressed that variety is important, it would probably not move to the top of the list. Further, we do not know if other members of the household purchase certain categories more often than the primary shopper who was interviewed. For these reasons, it will be important to interpret these numbers in light of category penetration figures that are available from other sources.

On the positive side, supermarkets may have an advantage when it comes to the speed with which a new item is introduced into the store, based on the answers to a question asked in one of the study stores.

Who is the First to Carry
a New Item?
(% of Shoppers Responding)

Study store	47%
Deep-discounter	17
Chain drug store	17
Other grocery	7
Mass merchandiser	6
Other	6
Total:	100%

Sample base: 159

Some supermarkets appear to own the "high ground" here and should be able to enhance their variety reputation by showcasing new items before they are available in other outlets in the market.

A final issue involves the question of where a supermarket can find the space for additional variety--can it afford to cut back on the number of sizes offered in the same brand? Since the number of sizes available varies significantly by category and even by brand within a category, there are no universal answers. It does appear, however, that this option is worth exploring on a case-by-case basis.

What Do you Do When The Desired
Package Size is Not Available?
(% of all Shoppers)

Buy a different size	63%
Don't buy the product	17
Go to another store	11
Buy another brand	5
Other	4
Total:	100%

Sample base: 1,255

There is a large shopper segment who seems willing to simply buy another size, assuming it is available. The challenge will be to find situations in which eliminating a particular size won't significantly diminish category sales.

Implications for Supermarket Response

Even the food/drug combos don't appear to receive the expected level of credit from consumers for variety. Despite a large number of SKUs, the food/drug combo does not seem to provide the consumer with the brand choice available from the deep-discounter. This is one element of the value equation where the supermarket could improve its reputation by:

- Adding brands--especially in selected high-profile categories like shampoo/conditioner and cosmetics/make up--since shoppers seem to regard brands as a key indicator of variety.

- Showcasing new items that for a time may only be available in that particular store.

FINDING 6

Supermarkets have an opportunity to capture additional HBC sales by stressing the convenience of combining pharmacy shopping with other shopping.

It appears that the connection between pharmacy use and shopping for HBC and groceries is not as strong as many in the supermarket business might have expected.

Primary Pharmacy Choice
(% of all Pharmacy Shoppers)

Chain drug/independent pharmacy	46%
Study store	30
Deep-discounter	15
Other*	9
Total:	100%

*Sample base: 1,197***

**Includes mass merchandisers, clinics/hospitals, and other grocery stores.*

***1,197 of the 1,255 shoppers interviewed (95%) have a primary pharmacy.*

While the strength of the prescription business in chain drug stores and independent pharmacies is quite clear, neither type of store was mentioned as a significant source of HBC products.

Reasons for choosing a pharmacy help explain the strengths of these outlets.

Reasons for Choosing Primary Pharmacy
(% of Shoppers)

	All Shoppers	--Shopper Choice for Primary Pharmacy-- Study Store	Drug Store	Deep-discounter
Convenience	48%	64%	51%	20%
Price	20	13	6	62
Service	6	9	9	3
Other*	26	14	34	15
Total:	100%	100%	100%	100%
Sample base:	1,197	358	548	176

**"Other" responses for study store include: where insurance accepted, habit, clean store.*
"Other" responses for drug and deep-discount stores include: where insurance accepted, habit.

Convenience emerges as far and away the most important factor in choosing a pharmacy. While the pharmacies located in the food/drug combo study stores are chosen most often on the basis of convenience, it appears that the neighborhood location of many drug stores and independent pharmacies may be an even stronger appeal to a large segment of the population.

It is somewhat surprising that price was not mentioned as a key reason more often. One factor that seems to reduce price sensitivity is that some people are not paying the full cost of their prescriptions.

- *"It's convenient. We have a prescription card so I don't really know what the drugs cost, to be perfectly honest. I don't compare prices."*
- *"With my husband's plan, we just pay a couple dollars for each prescription--that's it. I don't really care what the regular prices are because I always pay the same amount."*

This highlights an opportunity to segment the market for pharmacy on the basis of whether or not consumers are price-sensitive.

What are the consumers like who do their pharmacy shopping at each of these stores?

Age of Shoppers Choosing
Each Type of Pharmacy
(% of Shoppers)

		--Shopper Choice for Primary Pharmacy--		
Age	All Shoppers	Study Store	Drug Store	Deep-discounter
18-24	4%	6%	4%	1%
25-39	47	52	45	44
40-49	27	22	28	37
50-64	16	13	18	15
65 +	5	6	4	3
Refused	1	1	1	0
Total:	100%	100%	100%	100%
Median:	(39.6 years)	(37.8 years)	(40.1 years)	(41.4 years)
Sample base:	1,197	358	548	176

The study store shopper base includes a larger proportion of younger shoppers (under 40) than either the drug store or the deep-discount drug store.

As might be expected, drug stores and independent pharmacies show the greatest strength with the older shopper (50+), but the deep-discounter is also strong with that segment--perhaps because these individuals have the time to take advantage of the savings offered by the pharmacy at the deep-discounter.

When a choice of pharmacy is looked at in terms of income level, an important opportunity emerges for the supermarket.

Household Income of People Choosing
Each Type of Pharmacy
(% of Shoppers)

		--Shopper Choice for Primary Pharmacy--		
Household Income	All Shoppers	Study Store	Drug Store	Deep-discounter
<$14,999	2%	4%	1%	1%
$15,000-$24,999	7	9	6	6
$25,000-$34,999	17	17	15	20
$35,000-$44,999	19	19	19	19
$45,000-$54,999	18	19	19	17
$55,000 +	28	22	32	31
Refused	9	10	8	6
Total:	100%	100%	100%	100%
Median:	($45,402)	($42,609)	($47,647)	($45,500)
Sample base:	1,197	358	548	176

The food/drug combo study stores don't appear to be getting their "fair share" from the most affluent pharmacy shoppers.

Less than one-third of all shoppers purchase pharmacy and HBC in the same outlet. This study shows that only the study stores seem to have been able to encourage a significant proportion of consumers to see the advantage of purchasing both pharmacy and HBC needs from the same store.

Same Source for Pharmacy and HBC
(% of Shoppers Using Same Source)

Study store	65%
Deep discounter	20
Chain drug/independent pharmacy	8
Other*	7
Total:	100%

Sample base: 398

**Includes other grocery stores and store formats.*

The question arises about why relatively few consumers seem to combine HBC and pharmacy purchases in drug stores/pharmacies or deep-discount drug stores. The answer seems to be that these two purchases are frequently not made on the same shopping trip, so they are easy to divide between two different stores.

By contrast, at the study stores, it appears that pharmacy shopping is frequently combined with grocery shopping, which can include HBC purchases.

- *"If I have to get a prescription, I'll go to a place where I can do my grocery shopping at the same time."*
- *"I mostly go there for the discount pharmacy and then do most of my grocery shopping there too."*
- *"I go to the grocery store to get my prescriptions filled. Sometimes I have to wait 20 minutes or more, so I can do my shopping while I'm there. It's a convenience for me."*

In FMI's *Consumer Attitudes Toward Supermarket Pharmacies* study, a fair number of the people currently shopping in a food store that has no pharmacy say they can recognize the convenience of combining their pharmacy and grocery shopping. Other shoppers, however--even some of those who do their grocery, but not pharmacy, shopping in the food/drug combos--have not had the opportunity to experience this convenience and may be ideal targets for supermarket pharmacy-related promotional efforts.

Implications for Supermarket Response

The connection between HBC and pharmacy shopping appears to be more indirect than might first appear, i.e., many consumers are concentrating pharmacy purchases in chain drug stores and independent pharmacies without buying most of their HBC products in the same store, even though they may do some limited HBC fill-in shopping in those outlets.

The supermarket has the opportunity to build HBC sales by encouraging more consumers to see the convenience of making pharmacy purchases--especially for refills and maintenance prescriptions--at the same time they make their regular trips to the supermarket. Also, as HMO and third-party plans become increasingly popular, supermarket pharmacies will need to make sure that they accept--and that shoppers know they accept--the various prescription cards. These actions will reduce shoppers' need to visit competitive outlets which, in turn, should shift some HBC business to the supermarket.

Additional Lessons Learned From Successful Supermarket HBC Departments

Through the merchandiser interviews, shopper intercepts, focus groups, and store visits made by the researchers on this study, it became clear that the over-performing stores are doing a number of things that help build their HBC business. There are several lessons that can be learned from these successful operators by looking at some of the things they are doing that others may not be. Successful stores tend to:

1. Cultivate the desired price image.

   - Narrow the retail price gap with discounters.

   - Communicate prices clearly both in the store (signs, shelf-talkers, etc.) and in external advertising to get full credit for their prices.

2. Offer something that appeals to stock-up shoppers.

   - Promo/bonus packs
   - Larger sizes
   - Competitive and creative pricing to encourage stocking up

3. Let shoppers know--through various in-store and external communication--that they have "buying power" in HBC and that they pass savings along to consumers.

4. Strengthen their variety image.

   - Expand brand variety, especially in key categories.

   - Ask shoppers what they would like to see carried and respond if feasible.

5. Aggressively merchandise in-store the HBC values they are offering to shoppers--big displays can be eye-catching and contribute to a low price image.

6. Aggressively promote pharmacy business.

   - Community outreach programs
   - Enticements to transfer prescriptions
   - Discount off co-pay

When tailored to individual markets and competitive environments, these lessons can be a big step toward building a supermarket's competitive advantage in HBC.

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